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From the Private Secretary

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20(11) Subject file  
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Hart Euro Pol - Direct  
to Pro Elections - May 79  
to Primary  
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9 January 1980

Dear Rosine,

MEETING WITH THE EUROPEAN DEMOCRATIC GROUP

I sent you yesterday a brief summary of the main points that came up in the course of the Prime Minister's "private" meeting with the Members of the European Parliament at Church House. In the light of the interest which has been aroused about the Prime Minister's remarks on possible solutions to the budget problem, you and the other recipients of my letter may like to have a more detailed account of what the Prime Minister said on this subject.

The Prime Minister began by responding to Sir Fred Catherwood's assertion that there was growing sympathy in the European Parliament for the proposition that the contribution of each member state to the Community budget should be in line with its GNP. The Prime Minister said that this was a concept with which she would of course have much sympathy. However, to have it adopted as a basis for calculating budgetary contributions would involve a total reform of the system of Community financing. This would take far too long to effect.

The Prime Minister then identified four elements which would be, or might be, relevant to a solution of the budgetary difficulty:-

- (a) Action on the contribution side of the budget. The Prime Minister said that agreement on a corrective mechanism to deal with this issue had been, in effect, reached at Dublin.
- (b) Action on the receipts side of the budget on the basis of existing procedures. It was essential that a larger proportion of Community expenditure should come to the UK. This might involve the introduction of new schemes for Community expenditure. The UK had put forward a number of suggestions. These included the coal industry, transport system and Ulster.
- (c) The establishment of a receipts mechanism. The Prime Minister said that one basis for such a mechanism would be that it should ensure that Britain received receipts at a level of 75 or 80 per cent of the average received by each of the other members of the Community per head of population.

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(d) Action on restructuring the budget as a whole. This, according to the Prime Minister, was an essential objective. But it would be extremely difficult to achieve rapid action on the amendment of the deeply entrenched provisions of the CAP.

I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to Martin Vile (Cabinet Office).

*Yours ever*

*Michael Alexander*

R.M.J. Lyne, Esq.,  
Foreign and Commonwealth Office.